

The Commodities Feed: Oil sell-off overdone

Oil prices continue to come under pressure, despite the oil balance being set to tighten in the upcoming quarter. European gas prices gave back gains from earlier in the week with more clarity on when Norwegian supplies will return to normal



Source: iStock

Energy – Oil sell-off overdone

Sentiment in the oil market continues to weaken. ICE Brent came under further pressure yesterday, settling more than 1% lower and taking prices below \$78/bbl. A bearish overnight API release is likely to keep pressure on the market in the immediate term. API data shows that US crude oil inventories rose by 4.1m barrels over the last week, very different to the more than 2m barrel decline the market was expecting. Cushing crude oil stocks also increased by 1m barrels, while gasoline and distillate inventories rose by 4m barrels and 2m barrels respectively. The more widely followed weekly EIA report will be released later today.

While the market has been disappointed that OPEC+ will gradually unwind cuts, it is important to remember that this is only from October. Our balance sheet continues to show a tightening in the oil market over the third quarter. Therefore, we believe the scale of the sell-off at the front end of

the forward curve is overdone. The decision from OPEC+ warrants relatively more weakness further along the forward curve (we currently see a small surplus in 2025 with the gradual return of OPEC+ supply), but speculative money will be largely positioned in the nearby prompts. The technicals also suggest that the oil market is entering oversold territory. However, a concern for the market remains the weakness in refinery margins.

European natural gas prices gave back all of Monday's gains yesterday. Front-month TTF futures settled more than 6% lower on the day. This is after Norwegian pipeline operator, Gassco, said that an unplanned outage due to a pipeline crack at the Sleipner gas field in the North Sea, will likely end on Friday. The unplanned outage has seen Norwegian daily flows to Europe fall from around 300mcm/day to less than 270mcm/day. Despite the outage, European gas storage continues to trend higher. The latest data from GIE shows that storage was 71% full on Monday, above the 70% seen at the same stage last year and above the 5-year average of 59%.

Metals – Copper breaks below \$10,000/t

LME copper prices settled almost 2% lower yesterday, taking prices back below \$10,000/t. As we have mentioned several times over the last month, short-term fundamentals have not supported the scale of the speculative-driven move higher in copper over much of May. Indicators in China have been bearish. SHFE stocks are at seasonal record highs, Chinese refined copper import premiums are negative and Chinese refined copper output continues to grow year-on-year. In addition, LME copper inventories have moved higher in recent weeks, growing by almost 16kt since mid-May to just shy of 119kt.

The latest LME COTR report released yesterday shows that investors increased their net long in aluminium by 1,259 contracts over the last week to 137,109 contracts as of last Friday. In contrast, speculators reduced their net long in copper by 3,003 contracts to 86,304 contracts, while they also reduced their net long in zinc by 2,138 contracts to 45,822 contracts

Authors

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.